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The Basics of Retirement Planning

Module Description

A sixty-minute interactive program introducing the basic concepts of retirement planning. Suitable for all audiences, however it is recommended that participants have completed the Budgeting and Saving and Investing courses prior to this course.

Materials

Ballpark Estimate Worksheet

Earnings and Benefits Statement Request Form (SSA-7004)
(Can be downloaded from SSA Website)

Rate of Return= 12%

Military Retirement Pay Plans

Individual Retirement Account Options

Calculators and Pencils

Notes

Relevant Websites:
www.lifelines4qol.org
www.asec.org
www.ebri.org
www.ssa.gov

Instructor References

SECNAVINST 1754.1, Family Service Center Program

OPNAV Instruction 1740.5A (Draft), Personal Financial Management Education, Training and Counseling Program

Command Financial Specialist Training Manual, NAVPERS 1560.8C (or later)

Everybody's Money Book, by Jordan E. Goodman

Making the Most of Your Money, by Jane Bryant Quinn

The Millionaire Next Door, by Thomas J. Stanley, Ph.D., and William D. Danko, Ph.D.

Personal Finance by E. Thomas Garman and Raymond E. Forgue

The Wall Street Journal Guide to Planning Your Financial Future by Kenneth M. Morris, Alan M. Siegel, and Virginia B. Morris

Objectives

At the conclusion of this program participants will be able to:

- Complete a "Ballpark Estimate" worksheet to estimate their retirement funding needs.
- Identify the three sources of retirement funding.
- Order their "Request for Earnings and Benefit Estimate Statement" from the Social Security Administration
- Explain the benefits of tax-deferred investing and identify two commonly used tools for tax-deferred investing.

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Introduction

Introduce self:
Relevant work and education experience.

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Who is ready for their retirement? What do we even mean by the word "retirement"? Do we mean retiring from the Navy or retiring from working full time? **When we talk about 'retirement' in this class we are referring to the time when a person wants the option of not working. Often thought of as occurring in the early to mid-sixties, it is a time when people need their money to work for them so that they don't have to.** Is retirement an isolated event—like stopping work or hitting 65 years old? Is it when you stop having any income all together and live off of social security?

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Why do we need to be concerned about retirement to the extent that we have a whole course on it? Mainly because many Americans, too many Americans, aren't adequately preparing for retirement. They think social security and a company retirement will cover them. They don't realize that they may need to cover 36% or more of their retirement income needs from their own personal assets. Furthermore, as the face of retirement has changed, as you will see shortly, retirement planning has become more complicated and there are certain things you need to know and do, and the earlier the better. Typically, money is needed during this part of your life for three reasons:

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- To replace the income you no longer earn each month.
- To continue to grow in case you live a very long time.
- To preserve your capital so that you can pass it on to your heirs or worthy causes, if that is something you want to do.

The good news is that for a young person the strategy to fund retirement is a simple one: start early, stick with it, and save as much as possible. Today we will address the following issues to help you be prepared for this important phase of your life: 5

- The Changing Face of Retirement
- The Retirement Planning Triad
- Social Security Benefits
- The Benefits of Tax-Deferred Investing
- Employer-Provided Retirement Plans
- Your Personal Assets

We'll try to help you figure out what you will need, and determine where it will come from. As you will see, if you take care of a little today, you will have taken care of a lot tomorrow.

The Changing Face of Retirement 6

The face of retirement has changed. It used to be retirement was being too old to work but too young to die. You worked as long as possible until you were too sick. In retirement you had limited means, limited longevity and a modest lifestyle. You needed about 65% of your pre-retirement budget to survive, and between social security, employer-provided pensions and small personal savings you could do it. It lasted five, maybe ten years. For most people retirement meant death—right around the corner. Today the rules of retirement have changed—thanks to our longevity, earlier retirement, and greater expectations of what the retirement years can mean to us. These days, we are healthier, we are living longer, and when we retire the fun is just beginning—and we need more money to support it.

A New Model for Retirement: If the face of retirement has changed, what does the new face look like? Michael K. Stein, a Certified Financial Planner who specializes as a Retirement Consultant, says that in the last 100 years the life expectancy of Americans has increased 50 – 60%. He notes that the "health and vigor that these older people carry into retirement has greatly improved the prospects for an enjoyable retirement." He suggests that the prevalence of earlier retirements and increased longevity have made some retirements as long as 35 or 40 years, with an initial need of 100% of the budget. Clearly the old model of retirement has changed. You still need the three elements of retirement—social security, employer provided pensions and personal savings, but add investment earnings to provide the additional income needed—in other words, you need your own money, and it needs to continue making money for you during the retirement years. The new retirement consists of three phases:

- **The Active Phase**: Lasts about 10-15 years, draws people out of productive careers into retirement. Includes earnings and savings, and tax, estate and insurance planning aspects. Like an extended vacation or a second childhood without parental supervision—expensive (as much or more income needed that pre-retirement.) Need 100% of pre-retirement budget.

- **The Passive Phase**: Health is still reasonably good, but energy and vigor no longer support a "get-up-and-go" retirement. A time of quiet pleasures. Budget needs decrease.

- **The Final Phase:** Medical and nursing care are the principal characteristics. Dealing with the end of life. Budget needs increase with costs of medical care.

The Retirement Planning Triad

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The new model of retirement suggests that your income needs probably won't go down at retirement, and that more than ever you'll need your money to keep working after you stop working. Where will the money come from? There are three sources:

- Social Security
- Employer-provided pensions, such as 401k's and pension plans
- Personal Assets. such as mutual funds, IRA's and equity in your home

We will go over each of these sources of retirement income shortly. But first, how many of you have ever taken the time to project how much money you might need at retirement? There are a lot of variables you need to know to figure this out, and for some of you retirement may be pretty far off to make any accurate estimates. But like any other financial goal, we need to have some idea of what we are aiming for—at the minimum a Ballpark Estimate.

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The Ballpark Estimate: To help you with this projection, you have been provided with a worksheet entitled the "Ballpark Estimate". This worksheet, created and distributed by the American Savings Education Council, has but one goal—to help every working American start planning for their retirement income needs. The Ballpark Estimate should be filled out during the class. (If the training site has the capability of projecting an on-line site, a completed sample is included here:)

NOTE:
Instructor options include walking the whole class through the form as participants fill out their own individual Estimate, completing one sample for the whole class, or using the interactive version on the ASEC website

9 In our example, we will use a 30-year-old who wants to retire at 60, and is currently earning $40,000 in the military.

- **Step One:** To get a rough figure of how much annual income you want in retirement, simple take 70% of your current income. This number will probably be very low, as a 30-year-old can expect income to be much higher by the time he or she is 60. 70% of $40,000 will leave us with $28,000.

- **Step Two:** Subtract income you expect to receive annually from Social Security—$12,000 according to the form. Next, subtract any income you may expect from a traditional employer pension. Assuming this person retires from the military we will make an assumption of a $14,000 pension from the military. We don't know if there will be other pensions from a second career. There is no other income to subtract. Subtract step two from step one, and this is how much income you need to make up for each retirement year. In our example that will be $2,000. Sounds good, so far, but let's move on.

- **Step Three:** Following the form, we take the amount of money needed in Step Two and multiply it by a factor based on when we want to retire. For our example, the retirement age is 60, so we multiply $2,000 by a factor of 18.9.

- **Step Four:** If someone is going to retire before full social security retirement age they will need additional money to make up for the smaller social security payment. Since in our example the retiree will be 60, we multiply the social security benefit by a factor of 4.7 to get the additional funds needed.

- **Step Five:** Add up any other funds available for retirement and multiple it by the factor listed in the table in Step Five. This will account for the growth of the money over the time until retirement. In our example, we will assume the retiree currently has 10,000 in an IRA and will multiply it by 2.4, since the 30 year old has 30 years to go until retirement. From the amount calculated in step 3, add the amount calculated in step 4 and subtract the amount calculated in step 5. This will give you a total figure of how much additional savings you need at retirement, $70,200 in our example.

- **Step Six:** In step six we multiply the amount calculated in Step Five by a factor that will account for how much you need to save annually to get this sum. In our example, $70,200 multiplied by the factor for someone who wants to retire in 30 years, .020, gives us an annual savings need of $1,404. That is about $117.00 per month. Sounds like a doable amount, doesn't it?

Bear in mind that this is just an estimate and also is based on the income of a 35 year old. $28,000 per year to live on at 60 years old is not a lot of money, but the worksheet gives you a starting point for planning your retirement savings. If we had used an initial preretirement income of $100,000, the annual amount needed to be saved would have been over $17,000, all other factors being equal. Of course, there are a lot of factors that come into play and can change some of your retirement estimates. These include:

1. Date of Retirement 10
2. Length of Retirement
3. Residence During Retirement

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4. Change in Lifestyle During Retirement

5. Budget Needs During Retirement

6. Employment (part-time) During Retirement

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7. Assumed Yield on Investments During Pre-retirement Period

8. Assumed Inflation Rate During Pre-retirement Period

9. Retirement Marginal Income Tax Bracket.

10. Use of Real Estate Equity as a Retirement Asset

11. Risk Tolerance Level

As you can see, planning your retirement savings can be as simple as filling out the Ballpark Estimate for a starting point, or as complicated as taking all the various factors into consideration. A **financial professional** can assist you with this process as your finances become more complex. The Ballpark Estimate is a great place to start—fill one out today!

Now that you've had a chance to look at what you may need at retirement, let's talk in detail about the three sources of your retirement income: social security, employer-provided retirement plans, and personal assets.

Social Security Benefits

How many people think social security will be around when they turn 67?

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NOTE:
This paragraph is included for instructor information. May be too detailed for program purposes.

OPTIONAL DISCUSSION: How Social Security Works

Social Security began in 1935, when the government tried to provide a retirement benefit that at the time was typically not provided by employers. Taxes paid by workers are used to fund current benefits, in other words, the FICA (Federal Insurance Contributions Act) tax you pay today is used to pay today's social security beneficiaries. FICA is a 15.3% tax, consisting of 12.5% to fund Social Security and 2.9% to fund Medicare Hospital Insurance. Of the 15.3% tax, an employer pays ½, and the employee pays the other ½. For the military member, FICA consists of 7.65% of base pay (on income up to $72,600 [1999].) Eligibility for social security benefits is determined by an individual's "insured status"—a specific period of employment covered by social security. To be fully insured a worker must have 40 quarters of coverage. A 'quarter of coverage' is earned for each $740 (1999) that an employee (or self-employed individual) earns (up to four in a year).]

When you can get Social Security: Today an individual can begin to receive full social security benefits at 65 years old, or a reduced benefit at 62. For people born in 1960 or later, the benefit period begins at 67.

The amount of your benefit: The maximum social security benefit for a worker and spouse is around $23,000. The average social security benefit is smaller than that, as you saw from the Ballpark Estimate worksheet. It is important that you check on your insured status to make sure you have been given credit for your earnings. It is equally important that you check on your projected benefit in order to make some workable assumptions in your retirement planning. This can be done by ordering your Earnings and Benefits Statement from the Social Security Administration

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NOTE:
You may provide participants with copies of SSA Form 7004. Available through the Social Security Administration, can be downloaded from their website.

Getting your "Earnings and Benefits Estimate" Statement: To order your Earnings and Benefits Statement, complete the SSA Form 7004 and mail it in to the SSA. There is no charge for this statement. Send for this statement today to ensure the Social Security Administration is tracking your work history accurately (mistakes do occur).

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The Benefits of Tax-Deferred Investing

Now that we have covered social security we will move on to employer- provided benefits and personal assets, the other two legs of the retirement planning triad. Before we discuss some of the details, however, we need to discuss one of the single most important aspects of retirement savings—tax-deferred investing. Does anyone know what tax-deferral is? It is simply putting off paying taxes. We are not talking about not paying taxes at all, merely not paying them until you absolutely have to.

With regular saving and investing, taxes are owed on your earnings. For example, if you have a savings account, each year you have to pay taxes on any interest your savings earns. The bank usually will send you a Form 1099-INT listing the amount of interest you earned, and you must report it on your taxes so you can pay the proper tax amount due. The same occurs with your investments. If your investments have grown during the year you will get a notice of how much you made, and the profit must be reported on your income tax forms and you must pay taxes on it.

If, however, you are using a 'tax-deferred' investment, your investments can grow, but you don't have to pay the taxes on them until later. When it comes to most of your retirement options, you don't have to pay taxes until you withdraw money—which is usually after you turn 59 1/2. With tax deferral, not only has all

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of your money had a chance to grow over the years, but theoretically, if you start withdrawing money after you retire you should be in a lower tax bracket, because you no longer have a regular income from working. The government allows tax-deferral of retirement funds in order to encourage you to save and invest for your retirement years.

Here is a simple example of the benefits of tax-deferred investing. Let's say you invest $1,000 in two accounts, account A and account B. They both grow at 10% for the year. So, at the end of the year you have $1,100 in both accounts. However, Account A is a regular investment account, so you have to pay taxes on your $100 of growth. If your tax rate on the investment is 20%, then after you pay your $20 in taxes you are left with $1,080 to grow the next year. Account B, however, is a tax-deferred account. You don't have to pay any taxes until you withdraw money in your later years—typically after age 59 ½. So you have the full $1,100 to grow for the next year. It may not sound like that much money, but as the years go by it will make an incredible difference

So you have compound interest and time on your side, as well as tax-deferral. Let's look at another example of these powerful tools. Refer to the sheet entitled "Rate of Return = 12%". Let's look at column A. If you were 22 years old and contributed $2,000 a year for 6 years, and never save another dollar you would have saved a total of $12,000 out of pocket. If you invested the money at 12%, and left it to grow TAX-DEFERRED until you were 65, your investment would have grown to over $1.3 million dollars. That's power! Column B reinforces why you want to start as soon as possible. If you decide to delay, as in this example, until you are 28, you have to put away $2,000 every year until you are sixty five, a total of $76,000 out of pocket, to get about the same amount of money.

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Handout:
Rate of Return = 12%

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As a general rule in retirement planning, the first investments you want to 'max out' are any investments that offer you tax-deferral– especially if there is any employer matching. You will usually find these opportunities in an employer-provided retirement plan and in the IRA's, or individual retirement accounts, that you can open on your own. Let's next take a look at these two crucial sources of retirement funding.

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Employer-provided Retirement Plans

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There are basically two types of employer-provided pensions, called defined benefit and defined contribution. There are also several types of special employer-provided retirement plans for non-profit and government organizations and the self-employed. Let's look briefly at the two of these.

Defined Benefit Plans: In a defined benefit plan the final benefit is known. This contrasts with a defined contribution plan, where the monthly (or annual) contribution to the plan is set, but the ultimate benefit is unknown—because it depends on the types of investments you choose and the performance of those investments. In a defined benefit plan, usually called a "pension" plan, your employer promises to pay you a certain amount each month when you retire as long as you have met certain eligibility requirements—a certain amount of time with the organization, a certain age, etc. Your benefit is calculated according to a formula. There is usually an optional feature in pension plans whereby if you die your survivors can continue to get a portion of your retirement benefit (a "joint and survivor benefit".)

Handout: *The Military Retirement Pay Plans*

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The military currently provides you with a defined benefit plan if you stay for twenty years. You, as the employee, do not put any of your own money into the plan, it is wholly funded by the employer—the US Government. Military retirement provides for cost-of-livingincreases each year, unlike most civilian defined benefit plans. Depending on when you joined the service, your retirement benefit will be calculated in one of three ways (this includes changes to the retirement system under the 2000 Defense Authorization Bill):

1. **Final Pay Plan**: Applies to those who entered the military before September 8, 1980. After 20 years of service retirees get 50% of their basic pay on the day they retire, plus 2.5% for every additional year beyond 20, up to a maximum of 75% of basic pay.

2. **High Three Plan**: Applies to those who entered the military between September 8, 1980, and July 31, 1986. After 20 years of service retirees get 50% of basic pay on the day they retire, plus 2.5% for every additional year beyond 20, up to a maximum of 75% of basic pay. The retired pay is figured on the average basic pay during the service members last 36 months of service.

3. **Bonus Option Plan** (replaces the Redux plan): Applies to those who entered the military on or after August 1, 1986. Service members will choose, on their 15th anniversary of military service, between two plans: 18

    a. Retired pay calculated at 50% of basic pay for the first 20 years of service, plus 2.5% for each additional year up to a maximum of 75% of basic pay, OR

    b. A $30,000 cash payment at the 15th year of service and reduced benefits after 20 years of 40% of basic pay, with 3.5% added for each additional year up to a maximum of 75% of basic pay. (Promise to stay until retirement is a condition of receiving the cash payment.) Those who select this option will receive a reduced cost-of-living raise each year (1% less per year than other plans).

The military also provides you with a means of providing a portion of your retirement benefits for your survivors in the form of SBP, the Survivor Benefit Plan. This is not a course on the military retirement system—as you approach retirement from the military you will be provided with ample opportunities to learn about SBP and make a decision as to whether it is right for you. However, you do want to be able to make a reasonable assumption of what your military pension might be for planning purposes.

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Defined Contribution Plans: As we mentioned above, the second type of employer-provided plan is the defined-contribution plan. In this type of plan a monthly (or annual) contribution is made to the employees account. The amount of the contribution is determined according to the plan, but the end benefit remains unknown—it depends on the amount in the account upon retirement, which depends on how much was contributed, what the money was invested in, and how that investment performed. The contribution can be made by the employer, the employer and the employee both, or the employee alone. There are many different types of defined-contribution plans, and quickly they are becoming the most popular type of retirement plan as businesses attempt to cut expenses and employees demand more control over their retirement resources.

The 401(k): Probably the best known of the defined-benefit retirement plans is the 401(k). The 401(k), which is named after the portion of the tax code that governs the plan, can consist of a monthly amount contributed by the employer, a voluntary contribution by the employee, a matching contribution by the employer, and/or an employer's profit-sharing contribution. Employee contributions are made on a before tax basis, and, like in all qualified pension plans, the funds grow TAX-DEFERRED.

(This is why, if you are eligible for a tax-favored retirement plan, you should make funding it a priority in your investing.) In a 401(k) you will have to make a decision on where to invest the funds, and typically a plan will give you four or five choices. A basic knowledge of investment types and yields becomes important in making the best choice.

Other Types of Plans: There are many other types of plans. The 403(b), often referred to as a TSA, or Tax-Sheltered Annuity, is available for many non-profit organizations. Other plans include Money Purchase Plans, Target Benefit Plans, Profit Sharing Plans, Thrift Savings Plans and Stock Bonus Plans. Under the 2000 Defense Authorization Bill, the Thrift Savings Plan, a tax-deferred payroll savings program for federal civilians, will be opened to service members. This will allow members to set aside up to 5% of basic pay in a tax-deferred plan, up to a total of $10,000. Implementation of this plan will not occur, however, until legislation is submitted to Congress proposing a means of offsetting the lost revenue from the deferral of the income taxes. If an employer offers you or your spouse a retirement plan, max out your contribution because it will probably be made before taxes and definitely will grow tax-deferred.

General Information: When faced with choosing whether or 20
not to participate in an employer-provided retirement plan, look to answer these questions. Information can often be found in materials your employer will provide to you when you become eligible to participate in the plan:

- What type of plan is it? (Defined Benefit, Defined Contribution, or Special Plan)
- Who makes the contribution to the plan? (The Employer, The Employee, or both)

- Is there a vesting schedule—in other words, how long do you have to stay with the company to own the contributions the company makes to your account? In the Navy you need to stay in 20 years to get your pension. In many defined-contribution plans you vest in 5 or 7 years. (You are always fully vested in your own contributions, but when do you become vested in employer contributions?)
- When can you take the money out? How will you be taxed on withdrawals?
- What if you need your retirement funds for an emergency? Are there any loan provisions? Can you make a withdrawal? Will there be a penalty?
- If you leave the employer what do you do with the account? Can you take it with you? Can you transfer it to a new employer? As you know, with the Navy's pension if you do not stay for the full twenty years (with some exceptions) you do not get to take any benefit with you to your next employer. Being able to retain and move your retirement benefits as you switch employers is called "portability". With most of your defined contribution plans, you get to keep your retirement funds (your contributions, any portion of the employer's contribution that you are vested in, and any growth on the two.) Your options are usually threefold: Keep the funds with the current employer, roll the funds into a rollover IRA (to be discussed further in a moment) or roll the funds into your new employer's plan, if possible. Portability is a very key issue in retirement planning, and will allow you to continuously build your retirement funds whether you stay with the same employer for 40 years or change employers every two years!

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Personal Assets

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Personal assets are the final leg of the retirement planning triad. This used to consist of fixed savings vehicles (like bonds, CD's and preferred stock), as the retirement period was short, and continued growth of assets was not as important as a stream of income. The fixed income portion of personal assets is still important, but with the new retirement model there is a necessity to continue investing for the long-term—as we live longer we need our money to work longer, so growth remains important. There are many different places you can put your retirement dollars. However, as we mentioned before, if you have any opportunities for tax deferral you want to take advantage of them. For an individual, tax deferral is available through the IRA, or Individual Retirement Arrangement.

NOTE:
Invite participants to a Saving and Investing seminar if they are not familiar with various types of investments.

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Handout:
Individual Retirement Account Options

IRA's: An IRA isn't a product but a status. It is like a bucket that you put your money in, and when the money is in the bucket certain rules apply. Does anyone know some of the rules of IRA's?

The Rules: Thanks to the Tax Reform Act of 1997 what used to be a relatively simple explanation of IRAs has expanded to cover five different types of IRAs. Before we get to them specifically we'll talk about a few general rules of IRAs. Many of these are listed on the handout "Individual Retirement Account Options".

- Who is eligible: An individual can have an IRA if he or she has earned income. If the individual is married, a non-working spouse may make a contribution as well.
- How much can you contribute: Up to $2,000 annually or earned income, whichever is less. Non-working spouse may contribute up to the same amount to his or her IRA.
- When can you withdraw the money: Generally the money cannot be withdrawn without a penalty until you are 59

½, to pay for college, or for first-time home purchase (limitations apply). It must be withdrawn in the year following the year you turn 70 ½ (traditional). There is a penalty for early withdrawal (10%) and late withdrawal.

- What can you fund your IRA with: Cash or cash equivalents, stocks, bonds, mutual funds—almost anything except insurance, real estate and collectibles. Once you designate an asset as an IRA the rules apply to it.

The Five IRA's

1. **The Traditional (Deductible) IRA**: For those who qualify contributions are tax deductible and growth is tax-deferred. When withdrawn after 59 ½ growth is taxed as ordinary income. Early withdrawals are subject to 10% penalty. If you are covered by an employer-sponsored retirement plan the deductibility of your contribution is limited by your income. If your tax filing status is married filing joint the deductibility of your IRA contribution is phased out between income levels of \$52,000 - \$62,000 in 2000, rising to \$80,000 – \$90,00 in 2007. For single filers the phaseout occurs between income of \$32,000 - \$42,000 (2000).

2. **The Non-Deductible IRA**: If you are not eligible for a deductible IRA you can contribute to a non-deductible IRA. There is no tax deduction, but the growth is still tax-deferred.

3. **The Rollover IRA**: As discussed earlier, money from an employer-sponsored retirement plan can be put in a rollover IRA. The withdrawal rules for a rollover IRA are the same as for a deductible IRA. CAUTION: When rolling over money from an employer-sponsored plan be sure the money

goes directly from the employer plan to the rollover IRA, otherwise there will be taxes due.

4. **<u>The Roth IRA</u>**: Like a traditional IRA you can contribute up to $2,000 per year. Unlike the traditional IRA, in a Roth your contribution will never be tax deductible but will grow tax-deferred, and your growth upon withdrawal will be completely tax-free as long as you have left the money in for at least five years after the first contribution and you are 59 ½. Your original contributions can be withdrawn at any time without penalty, you are not required to take a distribution at 70 ½, and you can continue making contributions after you are 70. Eligibility to contribute to a Roth IRA phases out if you are married and your AGI is between $150,000 and $160,000, and if you are single it phases out between $95,000 and $110,000. If your AGI is less than $100,000 you can transfer money from a regular IRA to a Roth, but it is a taxable event.

   Who benefits from the Roth IRA? Generally the Roth is loaded with benefits for individuals who meet its income requirements and who:

   - Have an AGI below the Roth limits but above the traditional IRA deductibility limits.
   - Are covered by an employer-sponsored retirement plan and therefore cannot make deductible contributions to a traditional IRA.
   - Are younger retirement savers—the tax-free accumulation of earnings over time may far exceed the benefits of a deductible $2,000 contribution.
   - Think they will be in a higher tax bracket when distributions occur.
   - Plan to purchase their first home in five years or more.

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5. **The Education IRA**: A non-deductible IRA allowing a contribution of $500 per year per child. Marrieds must have AGI of $150,000 or less, Singles of $95,000 to make the full contribution. Money can be withdrawn tax-free to pay for college. The Education IRA can be transferred to another child in the same family if the intended child doesn't need/use it; if child doesn't attend college money must be withdrawn by the time child turns 30, and there is a 10% penalty on top of taxes due.

Like other tax-deferred opportunities, IRA's are long-term tools to use for your retirement. Growth investments like stocks and stock mutual funds are most appropriate for these tools, especially if you are younger and have a very long investment horizon.

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Other Investments

Mutual Funds (after-tax): If you have established your needed savings accounts, fully funded any tax-advantaged programs available to you (employer-provided retirement plan, IRA) and still have money available for retirement savings, any after-tax investments will work: mutual funds, stocks, bonds, and if you have a high risk tolerance, some of the riskier investments available. If you need additional information on these, be sure to schedule time to attend the Saving and Investing seminar.

Annuities: You may also find that an annuity would be a good tool to use in your retirement planning. An annuity is like a life insurance policy, except it pays while you live. You purchase an annuity through a life insurance company. There are many different types of annuities, some you purchase with a lump sum, and some you pay into regularly. The growth of the annuity is tax-deferred. There can be high fees associated with annuities.

If you think you may be interested in purchasing an annuity be sure to speak with a professional so you fully understand all of your options in the world of annuities.

Real Estate: A final word about real estate as a tool in your retirement planning. Generally you shouldn't consider your home as a retirement asset unless you are sure—committed—that you will sell the home and your equity will become a part of your retirement assets.

Summary

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We have covered many different aspects of retirement planning: the new retirement model, employer-sponsored retirement plans, social security and personal assets, IRA's and other investments suitable for retirement. Although there is more to know, this should provide you with a very solid foundation in the retirement aspect of your financial plan. Take it step by step to have a financially fit retirement:

1. Complete the Ballpark Estimate worksheet to have some idea of how much you should be saving and investing for retirement.
2. Complete your personal budget to determine where the money will come from for retirement saving and investing.
3. Order your Earnings and Benefits Statement from the Social Security Administration

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4. Max out any tax-deferred investment opportunities, such as company-sponsored retirement plans.

5. If possible, fully fund your IRA (and spouse's).

6. If there are still retirement dollars available, consider other investment opportunities.

7. If you need assistance, contact your Command Financial Specialist or Navy Family Service Center Financial Educator. If you have a complex retirement planning issue, use a financial services professional. Your CFS or Financial Educator can tell you how to find one.